BENEFIT IMPROVEMENT ADJUSTMENTS

FISCAL YEAR 1997/1998

CALCULATION

AND

FUNDING INFORMATION

LASD-104 Revised 11-97

State Teachers' Retirement System
Supplemental Payments

Contents

State Teachers' Retirement System
Supplemental Payments

1 Purchasing Power

Inflation can significantly deteriorate a person's ability to maintain a consistent standard of living after retirement. Inflation is generally measured by changes in the average prices of selected goods and services. As inflation rises, the value of money decreases because it purchases fewer goods and services. A decline in the purchasing power of money is another way to define inflation.

The faster the rate of inflation, the greater the drop in the purchasing power of money. For example, if wages remain the same but prices double, the current purchasing power of wages is only 50% of the purchasing power of those same wages prior to the price increases. In this situation, wages must double to maintain the same purchasing power.

The State Teachers' Retirement System (STRS) measures the purchasing power level of allowances by the change in the All Urban California Consumer Price Index (CCPI) published by the Department of Industrial Relations, Bureau of Labor Statistics. The cumulative change in the CCPI from each year in which benefits have become effective since 1955 is displayed in Attachment A.

2 2% Simple Benefit Adjustment (Education Code Sections 22140, 22141 and 24402)

The STRS defined benefit plan provides an automatic 2% simple benefit adjustment to allowances payable to all benefit recipients to provide some protection against the effects of inflation. This annual "benefit improvement factor" is applied September 1 of each year following the first anniversary of the effective date of the benefit.

There are two other sources of funds that provide additional purchasing power protection for STRS benefit recipients through "supplemental benefit payments". These are School Lands Revenue and the Supplemental Benefit Maintenance Account (SBMA). Supplemental benefit payments are made quarterly from these funds on October 1st, January 1st, April 1st and July 1st. It is important to remember that these payments are not guaranteed and will continue only as long as funds are available.

3 School Lands Revenue (Education Code Sections 24412 and 24413)

The goal of the state and the Teachers' Retirement Board is to raise the level of purchasing power of STRS allowances to a minimum of 75% of the purchasing power of the initial allowance. In an attempt to meet this goal, revenue generated from the use of State School Lands and Lieu Lands during the prior year is transferred to STRS each year for the purpose of providing annual supplemental benefit payments in quarterly installments.

This revenue is distributed on a pro-rata basis to all benefit recipients whose initial allowances have fallen below the 75% purchasing power level. Because School Lands does not generate enough income to bring the purchasing power of all STRS allowances to at least 75%, the available revenue is distributed on a proportional basis to all eligible benefit recipients. The amount of the School Lands payment for each benefit recipient depends on the: 1) amount of money available from School Lands that year; (2) number of benefit recipients whose allowance purchasing power is below 75%; and (3) increase in the CCPI.

For example, if School Lands Revenue is only sufficient to provide 5% of the amount needed to bring all allowances up to a minimum of 75% of the purchasing power of the initial allowance, each eligible benefit recipient will receive 5% of the amount needed to restore their purchasing power to 75%.

In 1997, School Lands Revenue has provided only 1.2% of the amount needed to restore the purchasing power of allowances payable to all benefit recipients to a minimum of 75%. Therefore, each eligible benefit recipient receives a supplemental benefit payment equal to 1.2% of the amount necessary to raise the purchasing power of the allowance to 75%.

Since School Lands Revenue for 1996-1997 is not sufficient to raise the purchasing power of each STRS

allowance to a minimum of 75% of the purchasing power of the initial allowance, the SBMA is used to increase the purchasing power of each allowance to a minimum of 68.2%[1] of the purchasing power of the initial allowance.

4 Supplemental Benefit Maintenance Account (Education Code Section 22400, 22954, 24414 and 24415)

An amount equal to a specified percentage of the prior year covered payroll is transferred each year from the State of California General Fund to the Supplemental Benefit Maintenance Account (SBMA) in the Teachers' Retirement Fund. The General Fund currently contributes an amount to the SBMA equal to 2.5% of the prior year statewide STRS member payroll. The SBMA is used to provide annual supplemental benefit payments in quarterly installments to all benefit recipients whose purchasing power has fallen below 68.2% of the purchasing power of the initial allowance[2].

The amount of the supplemental benefit payment for each benefit recipient depends on: 1) the extent to which the benefit recipients's allowance has fallen below 68.2%[3] of the purchasing power of the initial allowance; (2) the amount of the supplemental benefit payment provided from School Lands Revenue; and (3) the increase in the CCPI.

5 Estimation of Supplemental Benefit Payments

A benefit recipient may estimate his or her supplemental benefit payments. It is first necessary to calculate the purchasing power of the current STRS allowance. This may be accomplished by using the following information:

Initial Allowance (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)

Benefit Effective Date (identified by "Initial Date/Allow" on the Remittance Advice/Check stub just below the Social Security Number)

Current Allowance (identified by "Total Gross Allowance" before any deductions for taxes, insurance or receivables); **and**

Changes in the California Consumer Price Index (CCPI) is determined by dividing the CCPI for June of 1997 by the CCPI for June of the calendar year of retirement. (See Attachment A to obtain the CCPI factors from 1955-1997.)

6 Purchasing Power Percentage of the Current Allowance

The example will use the following data to calculate the current purchasing power percentage:

Initial Allowance:	$1,000
Benefit Effective Date:	July 1, 1975
Current Allowance:	$1,440.00
CCPI Factor:	3.077

In this example, the benefit effective year is 1975, and the corresponding CCPI factor is 3.077. Change in CCPI is determined by dividing the CCPI for June of 1997 by the CCPI for June of the calendar year of retirement.

The purchasing power of the current allowance is determined as follows:

A. Obtain the CCPI Factor for the benefit effective year: 3.077

B. Multiply the initial allowance by the CCPI Factor to obtain the **Fully Adjusted**

[1] Beginning with the April 1, 1998 Supplemental Payment the SBMA will be used to increase purchasing power of each allowance up to 75% of the purchasing power of the initial allowance, as long as funds are available.

[2] 75% beginning with the April 1, 1998 Supplemental Payment.

[3] 75% beginning with the April 1, 1998 Supplemental Payment.

Allowance. This is what the current allowance amount would be if it had been adjusted to keep pace with inflation since the Benefit Effective Date.

$1,000 x 3.077 = $3,077.00

C. Divide the Current Allowance by the Fully Adjusted Allowance to calculate the **Current Purchasing Power Percentage**.

$1,440.00 ÷ $3,077 = 46.8%

Note: If the Current Purchasing Power Allowance percentage is greater than 75%, no supplemental benefit payments will be received.

7 Supplemental Payment from School Lands Revenue (75% Purchasing Power)

The supplemental payment from School Lands Revenue is calculated as follows:

A. Multiply the Fully Adjusted Allowance by .75 to calculate purchasing power at 75% of the initial allowance **(75% Purchasing Power Amount**).

$3,077.00 x .75 = $2,307.75

B. Subtract the Current Allowance from the 75% Purchasing Power Amount to obtain the monthly payment amount that would be needed to restore the purchasing power allowance to the 75% level.

$2,307.75 - $1,440.00 = $867.75

C. In 1997/98, School Lands Revenue has provided only 1.2% of the amount needed to restore purchasing power of the allowances payable to all eligible benefit recipients to 75% of the purchasing power of the initial allowance. Multiply the 75% Purchasing Power Amount by 1.2% to calculate the monthly payment amount from School Lands Revenue.

$867.75 x 1.2% (.012) = $10.41

Note: This benefit recipient would receive an amount equal to $10.41 per month from School Lands Revenue in 1997/98. The actual amount payable to each eligible benefit recipient will differ.

D. Multiply the monthly amount by three (3) months to determine the **Quarterly School Lands Revenue Payment Amount**.

$10.41 x 3 = $31.23

In this example, School Lands Revenue is not adequate to raise purchasing power to 75% of the initial allowance. If the current purchasing power has fallen below the minimum of 68.2%[4], STRS calculates the SBMA payment needed to restore the purchasing power to 68.2%[5] of the purchasing power of the Initial Allowance.

8 Supplemental Payment from the SBMA (68.2% Purchasing Power; 75% beginning with the April 1, 1998 payment)

The supplemental benefit payment from the SBMA is calculated as follows:

A. **October 1, 1997 and January 1, 1998 payments:**

1. Multiply the Fully Adjusted Allowance by .682 to calculate the allowance adjusted to 68.2% of the purchasing power of the Initial Allowance (**68.2% Purchasing Power Amount**).

$3,077.00 x .682 = $2,098.51

2. Subtract both the Current Allowance and the School Lands monthly amount from the **68.2% Purchasing Power Amount** to obtain

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[4]75% with the April 1, 1998 Supplemental Payment.

[5]75% with the April 1, 1998 Supplemental Payment.

the monthly payment amount that would be needed to restore the allowance purchasing power level to 68.2%.

$2,098.51 (68.2% Purchasing Power Amount)
- 1,440.00 (Current Allowance)
$658.51 Monthly Supplemental Payment
- 10.41 (School Lands Monthly Payment)
$648.10 SBMA Monthly Payment Amount

3. Multiply the SBMA monthly amount by three (3) months to determine the **Quarterly SBMA Payment Amount**.

$648.10 x 3 = $1,944.30

B. **April 1, 1998 and July 1, 1998 payments:**

1. Multiply the Fully Adjusted Allowance by .75 to calculate the allowance adjusted to 75% of the purchasing power of the Initial Allowance (**75% Purchasing Power Amount**).

$3,077.00 x .75 = $2,307.75

2. Subtract both the Current Allowance and the School Lands monthly amount from the **75% Purchasing Power Amount** to obtain the monthly payment amount that would be needed to restore the allowance purchasing power level to 75%.

$2,307.75 (75% Purchasing Power Amount)
- 1,440.00 (Current Allowance)
$867.75 Monthly Supplemental Payment
- 10.41 (School Lands Monthly Payment)
$857.34 SBMA Monthly Payment Amount

3. Multiply the SBMA monthly amount by three (3) months to determine the **Quarterly SBMA Payment Amount**.

$857.34 x 3 = $2,572.02

9 Total Quarterly Supplemental Benefit Payment

Each Total Quarterly Supplemental Benefit Payment is calculated by adding the Quarterly School Lands Revenue Payment Amount to the Quarterly SBMA Payment Amount as follows:

A. October 1, 1997 and January 1, 1998 payments:

$31.23 + $1,944.30 = $1,975.53

B. April 1, 1998 and July 1, 1998 payments:

$31.23 + $2,572.02 = $2,603.25

State Teachers' Retirement System
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Factors for Calculating 1997-98 Purchasing Power - All Urban California Price Index
Attachment A

Year	June CCPI	Purchasing Power Factor
1955	25.7	6.226
1956	26.2	6.107
1957	27.1	5.904
1958	28.1	5.694
1959	28.5	5.614
1960	29.1	5.498
1961	29.5	5.424
1962	30.0	5.333
1963	30.2	5.298
1964	30.8	5.195
1965	31.6	5.063
1966	32.1	4.984
1967	32.9	4.863
1968	34.3	4.665
1969	36.0	4.444
1970	37.9	4.222
1971	39.4	4.061
1972	40.5	3.951
1973	42.7	3.747
1974	47.1	3.397
1975	52.0	3.077
1976	55.2	2.899
1977	59.5	2.689
1978	64.6	2.477
1979	71.0	2.254
1980	83.3	1.921
1981	90.1	1.776
1982	98.5	1.624
1983	99.1	1.615
1984	103.6	1.544
1985	108.4	1.476
1986	112.2	1.426
1987	116.3	1.376
1988	121.7	1.315
1989	128.2	1.248
1990	134.3	1.191
1991	140.1	1.142
1992	145.2	1.102
1993	148.9	1.075
1994	150.7	1.062
1995	154.2	1.038
1996	156.6	1.022
1997	160.0	1.000

The Purchasing Power Factor is obtained by dividing the CCPI for June of 1997 by the CCPI for June of the calendar year of retirement.

State Teachers' Retirement System
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Estimation Worksheet
(October 1, 1997 and January 1, 1998 Quarterly Payments)

■ Current Allowance Purchasing Power Percentage

1. _____ (Initial Allowance Monthly Amount) x _____ (CCPI Factor: June of the Benefit Effective Year) = _____ (Fully Adjusted Amount (a))

2. _____ (Current Allowance Monthly Amount) ÷ _____ (Fully Adjusted Amount (a)) = _____ (Current Purchasing Power Amount (Must be less than 75% to proceed))

■ School Lands Payment (75% Purchasing Power)

1. _____ (Fully Adjusted Amount (a)) x .75 = _____ (75% Purchasing Power Amount (b))

Note: The amount available from School Lands to raise purchasing power to 75% in the current year is 1.2%. The percentage available to raise purchasing power to 75% will vary from year to year.

2. _____ (75% Purchasing Power Amount (b)) - _____ (Current Allowance Monthly Amount) x .012 (Percentage available for 75% Purchasing Power in current year) = _____ (School Lands Monthly Payment)

3. _____ (School Lands Monthly Payment) x 3 (Number of months in a quarter of a year) = _____ (School Lands Quarterly Payment (c))

■ SBMA Payment (68.2% Purchasing Power)

1. _____ (Fully Adjusted Amount (a)) x .682 = _____ (68.2% Purchasing Power Amount)

2. _____ (68.2% Purchasing Power Amount) - _____ (Current Allowance Monthly Amount) - _____ (School Lands Monthly Payment) = _____ (SBMA Monthly Payment)

3. _____ (SBMA Monthly Payment) x 3 (Number of months in a quarter of a year) = _____ (SBMA Quarterly Payment (d))

■ Total Quarterly Payment from Supplemental Payments

1. _____ (School Lands Quarterly Payment (c)) + _____ (SBMA Quarterly Payment (d)) = _____ (Total Quarterly Supplemental Payment)

State Teachers' Retirement System
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Estimation Worksheet
(April 1, 1998 and July 1, 1998 Quarterly Payments)

■ Current Allowance Purchasing Power Percentage

1. _____ (Initial Allowance Monthly Amount) x _____ (CCPI Factor: June of the Benefit Effective Year) = _____ (Fully Adjusted Amount (a))

2. _____ (Current Allowance Monthly Amount) ÷ _____ (Fully Adjusted Amount (a)) = _____ (Current Purchasing Power Amount (Must be less than 75% to proceed))

■ School Lands Payment (75% Purchasing Power)

1. _____ (Fully Adjusted Amount (a)) x .75 = _____ (75% Purchasing Power Amount (b))

Note: The amount available from School Lands to raise purchasing power to 75% in the current year is 1.2%. The percentage available to raise purchasing power to 75% will vary from year to year.

2. _____ (75% Purchasing Power Amount (b)) - _____ (Current Allowance Monthly Amount) x .012 (Percentage available for 75% Purchasing Power in current year) = _____ (School Lands Monthly Payment)

3. _____ (School Lands Monthly Payment) x 3 (Number of months in a quarter of a year) = _____ (School Lands Quarterly Payment (c))

■ SBMA Payment (75% Purchasing Power)

1. _____ (Fully Adjusted Amount (a)) x .75 = _____ (75% Purchasing Power Amount)

2. _____ (75% Purchasing Power Amount) - _____ (Current Allowance Monthly Amount) - _____ (School Lands Monthly Payment) = _____ (SBMA Monthly Payment)

3. _____ (SBMA Monthly Payment) x 3 (Number of months in a quarter of a year) = _____ (SBMA Quarterly Payment (d))

■ Total Quarterly Payment from Supplemental Payments

1. _____ (School Lands Quarterly Payment (c)) + _____ (SBMA Quarterly Payment (d)) = _____ (Total Quarterly Supplemental Payment)